

Australian Film Commission Australia/US Free Trade Agreement Negotiations Cannes Media Briefing - May 19 2003

CULTURAL POLICY AND AUDIOVISUAL TRADE

The AFC is the Australian government's development agency for the film, television, and interactive media industry. It develops projects, people and the industry itself.

The following is the perspective of the Australian film and television industries, in relation to our trade negotiations in the context of the World Trade Organisation (WTO) and a proposed Free Trade Agreement (FTA) with the United States.

Australia's creative talent has made a significant impact on the world stage. The profile of the Australian industry and the depth of talent that it produces is quite disproportionate to the population and the size of the industry. Last year's record 12 Oscar nominations for Australian films and filmmakers is just one example. No other country outside the US achieves this. It is the success of the Australian local industry that provides the launching pad for the high profile Australian film creators and performers.

For over forty years, successive Australian Governments have supported Australia's cultural industries via a matrix of regulation and subsidy. Government support for Australia's audiovisual industries through regulation and subsidy exists solely because they deliver cultural outcomes.

Existing government policies deliver Australian stories and Australian faces on Australian screens. Australian film and television has played a central role in establishing an international profile for Australia and its culture. It is an industry of national importance and has been a great ambassador for this country around the world.

THE AUSTRALIAN INDUSTRY

However, compared to the US, UK or Europe, we are a small industry with a small market. Each year, Australia produces:

- around 25-30 Australian feature films worth US\$101m;
- 730 hours of Australian television drama worth US\$187m;

In addition US\$139m of foreign feature film and television drama was made in Australia last year.

Current measures of industry support consist mainly of the following:

- Direct subsidy through the Australian Film Commission, the Film Finance Corporation, Film Australia and the Australian Children's Television Foundation;
- Taxation concessions for investment in feature films, television miniseries and documentaries;

- Australian content rules for free-to-air commercial television, pay television and television advertising;
- Regulation of temporary entry of non-Australian residents into the Australian entertainment industry;
- International co-production arrangements;
- Rules governing foreign ownership of media and cross-media ownership;
- Funding two national broadcasters: the Australian Broadcasting Corporation and the Special Broadcasting Service;
- Direct support for training through the Australian Film, Television and Radio School; and
- The national film and sound archive.

So why are these mechanisms necessary? Why can't the audiovisual sector stand on its own two feet?

These support measures for the audiovisual sector are similar to those operating in most developed nations. India and the US are the only two film producing nations that do not have mechanisms in place for supporting a local film and television industry. Elsewhere, a local film and television industry exists in the context of a range of local content regulations and direct or indirect subsidy.

Such interventions are required to deal with market failure. This is the reality for Australian audiovisual productions.

The costs of television production in the US and UK are substantially or fully recovered from their domestic market. So US and UK television product is sold into the Australian market at a fraction of the real costs of production.

A US series costing US\$1million per hour, fully financed out of the US market, can be sold to an Australian broadcaster for US\$20,000 to US\$65,000 per hour.

An Australian series costing about US\$300,000 an hour can be pre-sold to an Australian broadcaster for half that amount and deficit funded against potential overseas sales by the Australian production company.

Around 250 feature films are released into the Australian market each year, of which around 70% are from the US and 10% are Australian. Australian films last year grossed about US\$25m, or about 5% of the total box office. The annual local share has not exceeded 10% over the last decade.

The average budget of US studio films is over US\$60 million.

The average budget of Australian films is around US\$3.0 million.

Being somewhat culturally similar to the US and UK and speaking the same language, Australian audiences love the best of American cinema and TV and see plenty of it.

Australian broadcasters' and audiences' enthusiasm for foreign programs is vividly demonstrated by Mediametrie's 'New on the Air' TV survey of 2002. The survey reported that US and UK television is dominated overwhelmingly by new local

programming while Australia, in contrast, remains the key net importer of new programs.

63.4% of new shows in 2002 originated from outside Australia. Only 28% of new hours of TV originated from non-US sources. This compares to approximately 1.5% of new television programs being foreign-sourced in the US and 4.3% in the UK.

The dominance of the US and the vast discrepancies of market power mean regulation and subsidy are essential if Australian audiences are to have access to minimum levels of Australian content.

CULTURE AND TRADE

The AFC is arguing for explicit recognition in trade agreements of the special status of culture.

Australia's measures are designed to deliver on its cultural policy objectives and are transparent, modest, targeted, do not exclude foreign material, and still leave Australia significantly open to international trade.

The US has made specific requests of Australia in relation to audiovisual services in the context of the GATS negotiations in the WTO and is expected to do so in relation to a free trade agreement with Australia, although negotiations have not yet reached this point. In the WTO negotiations, Australia has made no offers in the cultural sectors and has excluded measures related to content from offers in computer and related services.

The priorities of the US Coalition of Services Industries for multilateral and bilateral trade, set out in their Compendium presented to the US Trade Representative, are to seek full market access and national treatment for audiovisual production and distribution and for radio and television services.

The US focus in the WTO has shifted to seeking standstill commitments in audiovisual services, i.e. an agreement to maintain existing cultural measures without any ability to alter these in the future. However, the Australian Government's present position remains opposed to standstill commitments. The Australian position is to retain the right to determine, alter and potentially strengthen cultural regulation.

Australia's official position as expressed to the WTO's Council of Trade in Services in July 2001 is that:

“Australia remains committed to preserving our right to regulate audiovisual media to achieve our cultural and social objectives and to maintain the broad matrix of support measures for the audiovisual sector that underpin our cultural policy; including retaining the flexibility to introduce new measures in response to the rapidly changing nature of the sector.”

NEW TECHNOLOGY AND E-COMMERCE

The US has argued that the nature of the sector has changed due to technological developments. Its case is that in a multi-media and multi-channel distribution

environment the opportunities for the circulation of cultural products have been enhanced.

Unfortunately, the experience of the audiovisual sector in Australia has been different. More distribution channels has not always resulted in a corresponding increase in Australian product.

The argument about technological change also leads the US to the proposition that the existing classification of audiovisual services under the GATS needs to be reviewed.

The AFC maintains that cultural goods and services such as books, videos, DVDs, music and downloadable films are now traded via e-commerce with few, if any, barriers. These goods and services do not lose their cultural characteristics because of the means by which they are traded.

The measures that Australia currently has in place to support its cultural policy for the audiovisual sector, do not represent any barriers to the development of e-commerce.

THE NEXT STEPS

The AFC considers trade to be our highest priority in terms of policy issues. A strong audiovisual sector is in Australia's national interest. Support for Australia's cultural industries and appropriate mechanisms to achieve their continued development is consistent with Australia's trade objectives and is not a barrier to free trade.

The WTO round is not due for completion until 2005. President Bush has stated recently that he hopes to conclude an FTA with Australia by the end of this year. The negotiating teams are this week sitting down to the latest round of talks in Hawaii.

The Australian film and television industry anticipates the continued strong support of its own government and its negotiators.

For further information visit <http://www.afc.gov.au>